Economic Outlook

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

April 1985

The recent performance of the economy continues to be mixed. The overall result is modest growth, with indications of strength along with troublesome signs of weakness. Although the economy could plod along in this fashion for a few more months, conditions are being set for an improvement in growth by late spring or early summer. Real GNP is expected to increase about 4% from the fourth quarter of 1984 to the fourth quarter of 1985.

Many of the key economic indicators have been extraordinarily jumpy of late. For example, new orders for nondefense capital goods plummeted 13.1% from December to January, after displaying weakness throughout much of 1984. In February, however, orders rose 27.5%, an unusually large increase even for this volatile series. Most of the increase was the result of a sharp rise in orders for computers and related equipment. Excluding computers, orders were up only 7.8%, a respectable but not spectacular increase, insufficient to raise orders above 1984 levels.

The overall figures for capital spending have portrayed a pattern of remarkable strength in this recovery. Last year, real equipment investment rose 21.5% from the 1983 level, the largest annual increase since 1947. To many domestic producers of capital goods, however, this has hardly been a boom period. Some components of capital spending, such as computers and automotive equipment, have experienced impressive gains. Excluding these items, real investment in domestically produced equipment was absolutely flat last year, while imports of these capital goods surged 47.5%. Even though there appears to have been an investment boom, much of it has been experienced by foreign producers. The recent weakness of the dollar will help U.S. producers somewhat, but it certainly does not make up for the substantial appreciation of the dollar since 1980. Moreover, aggregate investment is likely to decelerate sharply this year, with the rise in real equipment investment expected to be slightly less than half of last year's rate.

The month-to-month changes in retail sales have also been unusually erratic in recent months, as sales rose 1.6% in February and then dropped 1.9% in March. Despite the sharp drop in March, fundamental factors influencing consumer spending remain favorable. Inflation remains under control, while employment continues to grow. February's record rise in consumer installment credit outstanding is certainly not a sign of consumers in retreat. Nonetheless, problems in some U.S. manufacturing industries have produced layoffs and have probably contributed to a sense of unease about where the economy is headed. As a result, consumer spending will likely continue to rise at a moderate pace, but in a hesitant fashion. Moreover, although many retailers have clearly been trying to control growth in inventories to eliminate imbalances that developed last year, recent indications are that inventories in certain areas are still uncomfortably large. For example, the inventory/sales ratio of department stores went from 2.02 in January 1984 to 2.21 during the summer (on a seasonally adjusted basis). The ratio was still a relatively high 2.18 in February, a sign that some of the vestiges of the slowdown that began last year are still present.

Bernard Schoenfeld

Irving Trust

Economic Forecast

Percent Changes at Annual Rates

	Actual								Forecast	Actual	Forecast	
	1984	1985							1986	1983-	1984-	1985-
	IV	I	II	III	IV	I	II	III	IV	1984	1985	1986
Gross National Product	7.1	7.6	9.0	9.0	8.9	7.9	7.9	8.2	10.0	10.8	8.0	8.4
Real GNP	4.3	2.1	5.0	4.3	4.1	2.8	2.5	2.5	4.0	6.8	3.7	3.3
GNP Price Deflator	2.8	5.4	3.8	4.5	4.6	5.0	5.2	5.6	5.7	3.8	4.1	4.9

	Actual	Forecast	Actual	Forecast	
	1984: IV	1985: I	1983-1984	1984-1985	1985-1986
Consumer Spending	6.1%	9.4%	8.6%	8.2%	8.2%
Durable Goods	11.9	11.6	13.9	9.6	7.8
Nondurable Goods	2.4	8.6	6.9	6.3	7.4
Services	7.3	9.3	8.5	9.1	8.9
Business Capital Spending	11.5	6.6	20.6	11.5	9.0
Structures	18.3	6.5	16.0	12.3	10.6
Equipment	8.0	6.8	23.4	11.0	8.1
Residential Investment	-4.7	5.5	16.4	5.1	1.4

			1984	1985	1986
Change in Inventories	$36.6b.	$38.0b.	$58.2b.	$48.0b.	$58.0b.
Net Exports of Goods and Services	$-56.0b.	$-73.5b.	$-64.2b.	$-90.8b.	$-96.3b.

			1983-1984	1984-1985	1985-1986
Government Purchases	10.7%	11.7%	9.0%	10.9%	9.2%
Federal	19.4	16.8	9.5	14.8	10.3
Defense	22.1	18.0	10.5	13.0	12.1
Other	12.1	13.5	6.7	20.0	5.2
State & Local	5.2	8.3	8.7	8.3	8.5
Corporate Profits Before Tax	2.3*	-3.9*	16.2	4.2	7.2
Corporate Profits After Tax	0.9*	-4.2*	14.8	3.9	7.2
Plant and Equipment Expenditures	6.9	14.7	16.0	8.7	7.1
Real Final Sales#	7.9	2.0	5.0	4.0	3.2
Real Disposable Personal Income	3.5	2.5	6.7	3.8	3.1

Economic Indicators	Recent Data			Actual	Forecast	
	Jan.	Feb.	Mar.	1983-1984	1984-1985	1985-1986
Consumer Price Index**	2.4%	3.6%	n.a.	4.0%	4.3%	5.2%
Producer Price Index for Finished Goods**	0.0	-1.2	2.4	1.8	2.9	5.1
Industrial Production	2.4	-2.4	3.6	10.6	4.0	3.6
Retail Sales##	0.8	1.6	-1.9	10.5	7.5	7.8

				1984	1985	1986
Auto Sales (millions of units, a.r.)	10.9	11.0	10.7	10.4	10.7	10.0
Housing Starts (millions of units, a.r.)	1.85	1.63	1.90	1.75	1.70	1.54
Unemployment Rate	7.4%	7.3%	7.3%	7.5%	7.0%	6.6%
Merchandise Trade Deficit (a.r.)	$123.4b	$137.3b.	n.a.	$123.3b.	$148.0b.	$160.0b.

Unless noted otherwise, all data are period-to-period percent changes at annual rates, derived from seasonally adjusted data.

April 16, 1985

#GNP less change in inventories, both in real terms.
##Monthly percent changes are not annualized.
*Year-over-year percent changes.
**Annual percent changes are December to December (not seasonally adjusted).

$b. = billions a.r. = annual rate F = Forecast